the other members of the Utah delegation, and all of my colleagues in this body in mourning the passing of our former colleague, Congressman Wayne Owens of Utah. I consider it an honor to have known him and to have served with him.

Wayne and I served on the International Relations Committee during his second term of service in this House from 1987 until 1993. I visited Wayne's congressional district in Salt Lake City at his request to assist with his reelection.

My relationship with Wayne, however, went back much further than our association here in this House. In the 1960s he served as a legislative aide to Senator Frank E. Moss of Utah, and later he was the Administrative Assistant to Senator EDWARD M. KENNEDY of Massachusetts. I also served on the staff of other members of the Senate while Wayne was working there.

Mr. Speaker, Wayne and I stood together on many issues before the International Relations Committee—from seeking to bring peace in the Middle East to dealing with the momentous changes taking place in Central Europe and the former Soviet Union. We also worked together on many other issues that were before the Congress—from protecting our nation's fragile environment to seeking the welfare of the working men and women of our country.

Mr. Speaker, Wayne Owens was a man of conviction, who took action that he thought was right despite the personal consequences. During his first term in the House of Representatives, he served on the Judiciary Committee and cast his vote for the impeachment of then-President Richard M. Nixon. Not long after that important vote, he ran for an open seat in the United States Senate but lost. He blamed his defeat on that Judiciary Committee vote because President Nixon remained popular in Utah. Wayne also worked on environmental legislation to protect the incomparable Utah wilderness and to reintroduce wolves to Yellowstone National Park—issues that many in his home state did not support. He voted against authorizing the use of military force against Iraq in 1991. I greatly admire Wayne for his determination to act as he thought right, despite the personal consequences.

Mr. Speaker, both before and after his congressional service, Wayne was committed to working for peace and reconciliation in the Middle East. In 1989 he joined my friend S. Daniel Abraham, the former Chairman of Slim Fast Foods, to establish the Center for Middle East Peace and Economic Cooperation. After his loss in the Utah Senate election in 1992, Wayne devoted a great deal of his time to the Center, and he was a frequent visitor to Arab States and Israel. On many occasions he traveled with Members of Congress to that region in an effort to increase understanding of regional problems and to seek solutions through economic cooperation.

Mr. Speaker, I join my colleagues in acknowledging the contributions of Wayne Owens to our nation, to this House, and to the cause of better understanding between peoples of the world. He was a remarkable and a dedicated man, and we all join in expressing our condolences to Marlene, his devoted wife of 41 years, and to his five children and 14 grandchildren.

INDIVIDUAL AND SMALL BUSINESS TAX SIMPLIFICATION ACT OF 2003

HON. AMO HOUGHTON

OF NEW YORK

IN THE HOUSE OF REPRESENTATIVES

Tuesday, January 7, 2003

Mr. HOUGHTON. Mr. Speaker, today I am re-introducing a bill, the Individual and Small Business Tax Simplification Act, to address a problem that remains as relevant in the 108th Congress as it was in the 107th. In 1935, there were 34 lines on Form 1040 and instructions were two pages. Today, the tax code and regulations have grown to over 9 million words. According to the Tax Foundation, individual taxpayers spent 2.9 billion hours on federal tax compliance in 2002. This is 370 million more hours than in 2001. Businesses spent an additional 2.75 billion hours on tax compliance. The value of this 5.6 billion hours of lost time is incalculable. Our tax code is a growing thicket of complexity that frustrates ordinary taxpayers, is a haven for promoters of dubious schemes, and frequently generates unintended consequences.

To be sure, defining income in a manner that is fair and easy to administer is inherently complex, but, for a variety of reasons, the tax code has become far more complicated than necessary. Pamela Olson, the Treasury Department Assistant Secretary for Tax Policy, put it well recently when she said that our tax system ''is surely not a tax system that anyone would set out to create * * * it is the system that has evolved over time.'' In many cases, there is a clear answer to the question of whether a rational person would design a tax provision the same way from a clean slate. The objective of the legislation I am introducing today is to roll back unneeded complexity for individuals and small business taxpayers. One or more of the bill's provisions would simplify annual filing for every individual taxpayer and nearly every business in America.

This legislation builds on a bill that I introduced in the 106th Congress, the Tax Simplification and Burden Reduction Act. The Ways and Means Subcommittee on Oversight has held numerous hearings on tax simplification, and the bill draws on the record built at those hearings. I plan to hold additional hearings on tax simplification during the 108th Congress to consider ways to refine this legislation and to consider additional simplification proposals. Several of the provisions of this legislation appeared first as recommendations in the Joint Committee on Taxation's April, 2001 report, and the staff of the Joint Committee on Taxation has helped to refine the proposals contained in the bill. Other provisions originated with the work of the Tax Section of the American Bar Association and the American Institute of Certified Public Accountants. I have received many comments on last year's legislation, and I welcome comments from other individuals and organizations on the bill as we continue to work toward the goal of simplification.

Our future as a Nation depends on our ability to raise revenue in a manner that is fair and equitable. The Internal Revenue Code must be simplified to restore faith by all taxpayers in our tax system.

The proposal includes the following provisions:

I. INDIVIDUAL INCOME TAX SIMPLIFICATION

Alternative Minimum Tax—Inflation has caused many middle-income taxpayers to be subject to AMT by eroding the value of the AMT exemption. Rising state and local taxes have added to the problem, because state taxes are not deductible in calculating taxable income for AMT purposes. The failure to allow a state and local tax deduction for AMT purposes is one of the most unfair aspects of the Internal Revenue Code. It results in double taxation of income, and it forces taxpayers who live in states with higher income taxes to bear a larger percentage of the federal tax burden than those who live in states with lower taxes or no tax. If we allow the AMT to remain unaddressed, this unfair and inequitable disparity will worsen over time.

As a result of inflation, the Joint Committee on Taxation predicts that more than 35 million will pay AMT within ten years. Currently, AMT affects less than 2 million taxpayers. A recent study by the Urban-Brookings Tax Policy Center confirms this finding and further notes that if left unattended the AMT will shift a substantial portion of the tax burden of this country to urban and suburban middle-class taxpayers. Congress would not design a system with these features deliberately, and we should not allow it to happen by default.

Under the proposal, the AMT exemption would be adjusted for inflation since the date it was enacted and indexed for inflation in future years. State and local taxes would become fully deductible under the new AMT. The effect of these changes will be to restore AMT to its intended purpose and stop its growth.

Replace Head of Household Filing Status with New Exemption—Head of Household filing status has long been a leading source of taxpayer confusion and mistakes during the filing season. In 2000, the IRS fielded over half a million taxpayer questions on filing status. An error on filing status can have consequences throughout the return, and it can lead to costly interest and penalty charges later on. To address this problem, the bill replaces Head of Household filing status with a $3,700 ''Single Parent Exemption.'' This amount will be indexed. The proposal, as a whole, is revenue neutral. The bill achieves further simplification by cross referencing the new uniform definition of a qualifying child.

Simplified Taxation of Social Security Benefits—Under present law, determining whether and how much social security benefits are subject to tax is a highly involved process that requires the completion of an 18 line worksheet. Many taxpayers are not eligible to use this worksheet, and they must refer to a 27 page publication.

The bill would simplify the calculation by repealing the 85 percent inclusion rule that was enacted in 1993. This alone would remove 6 lines from the Form 1040 worksheet. Going further, the proposal would index the 50 percent inclusion rule for future inflation, and greatly simplify the calculation of income for purposes of this rule. Tax exempt interest will no longer be required to be added in the calculation. Indexation will mean that fewer taxpayers will be required to complete the calculation and include benefits in income.

Simplify Capital Gains Tax—Under present law, there are seven different capital gains rates that apply to various kinds of dispositions of property. There are special rates for taxpayers in lower tax brackets, for property

held five years or more, and for gain on collectibles. Before 1986, there was one rule: 50 percent of capital gains are deductible. For any investor who has struggled to fill out Schedule D of Form 1040, it will come as welcome news that the bill proposes a return to the system in place prior to 1986.

No taxpayer will pay a higher capital gains rate under this proposal. By definition, the capital gains rate that individuals pay will be no more than one-half of their marginal income tax rate. Therefore, this proposal preserves the progressivity that is accomplished by a rate structure under current law, and the maximum rate will be no more than one-half of the highest marginal income tax rate. Thus, the maximum effective capital gains rate would be 19.3 percent in 2003, and an individual in the 10 percent bracket would have a 5 percent capital gains rate.

Repeal of 2 percent Floor on Miscellaneous Itemized Deductions—The bill follows the recommendation of the Joint Committee on Taxation that the 2 percent floor on miscellaneous itemized deductions should be repealed. This provision was originally enacted in 1986 to ease administrative burdens for the IRS and record keeping burdens for taxpayers.

Instead of easing taxpayers' burdens, it has caused extensive litigation and controversy over such matters as whether an individual is properly characterized as an employee or an independent contractor. It has also resulted in disparate treatment of similarly situated taxpayers. For example, an employee whose job requires him to pay out of pocket for travel, professional publications, or education is disadvantaged compared to a taxpayer in a similar job whose employer reimburses such items.

Simplify Taxation of Minor Children—This provision would eliminate the current restrictions on adding a minor child's income to the parent's return. A parent could freely elect to include the income of a child under 14 on his or her own tax return, regardless of the character and amount of the child's income. Parents and children would retain the ability to file separate returns, but the unearned income of a minor child would be subject to tax at the rates applicable to trusts. The single filing rate structure would continue to apply to the child's earned income.

Simplify Dependent Care Tax Benefits—The bill would conform differences between the Dependent Care Tax Credit and the Exclusion for Employer-Provided Dependent Care Assistance. The two programs serve identical purposes, but their rules are different. Under this proposal, the dollar limit on the amount creditable or excludable would be increased to $5,500, and the percentage creditable would be increased to 35 percent. These provisions would be further simplified by a cross-reference to the new uniform definition of a qualifying child.

Accelerate Repeal of PEP and PEASE—The bill would accelerate and make permanent the repeal of the overall limitation on itemized deductions (PEASE) and the personal exemption phaseout (PEP). These provisions add complexity and complicate planning for millions of taxpayers. The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) reduces their impact between 2006 and 2009, and they are repealed entirely in 2010 but, because of EGTRRA's sunset provisions, PEP and PEASE spring back to life in 2011.

Uniform Definition of a Child—One of the most challenging and difficult problems that taxpayers face each year is to navigate the multiple definitions of a qualifying child for the dependent exemption, the child tax credit, the dependent care credit, the earned income tax credit, and for purposes of determining head of household filing status. The bill would establish a uniform definition of a child based on the residence, relationship, and age of the child. The proposal would replace the rule that requires taxpayers to prove that they provide more than one-half of a child's support with a preference for the parent who provides housing for the child for more than one-half of the year. In addition, the bill would establish that means-tested government benefits are generally disregarded in determining eligibility for tax benefits.

Combine HOPE and Lifetime Learning Credits—Like the dependent care credit and the exclusion for employer provided dependent care assistance, the HOPE and Lifetime Learning Credits (LTL) serve nearly identical purposes, but they have different rules. The LTL credit is a per-taxpayer credit, and it applies on up to $10,000 of qualifying education expenses. The HOPE credit is a per-child credit, and it applies with respect to the first $2,000 of qualifying education expenses incurred during the first two years of post-secondary education. Both credits are for higher education, but taxpayers face a challenge to determine which credit is best for their circumstances. The bill would merge the two credits, providing a credit for one-half of the first $3,000 of post-secondary education expenses. This credit would apply on a per-child basis, and it would not be limited to the first two years of post-secondary education.

Uniform Definition of Qualifying Higher Education Expense—The bill adopts the recommendation of the Joint Committee on Taxation that there should be a uniform definition of higher education expense for purposes of the various education tax benefit programs. The varying definitions that exist in current law greatly complicate the task of determining which education benefit is best for the taxpayer.

II. SMALL BUSINESS TAX SIMPLIFICATION

Uniform Passthrough Entity Regime—This provision would combine the benefits of Subchapter S (S corporations) and Subchapter K (Partnerships) of the Internal Revenue Code in a single, unified passthrough entity regime based on Subchapter K. While at one time, Subchapter S provided the only avenue for prospective investors to avoid the corporate-level tax while retaining a full liability protection, the emergence and broad acceptance of limited liability companies (LLCs) has provided investors with an alternative. There are now two separate, fully articulated passthrough entity regimes.

Maintaining two separate passthrough entity regimes is expensive and unnecessarily complicated. It increases costs both for taxpayers and for the IRS. At a time when the IRS is striving to train its auditors to understand passthrough entities, and a new class of investors is struggling to understand the pros and cons of the two regimes, the time is ripe to rationalize this most complex area of the Internal Revenue Code by reconciling Subchapter S and Subchapter K.

The objective of the proposal is to establish a single passthrough entity regime that preserves the major benefits of Subchapter S and Subchapter K. Domestic corporations that are not publicly traded would have a new election to be treated as a partnership for federal tax purposes, and the S election would be repealed. The proposal would therefore endorse, and extend, the 1996 Check-the-Box regulations to allow state law corporations to elect partnership status. Existing S corporations would be permitted to continue as S corporations for ten years at which time they would be required to elect partnership or corporate status.

So as not to undermine the corporate tax that will remain applicable to publicly traded corporations and other entities that elect to be taxed as corporations, a corporation that elects partnership status with undistributed earnings and profits will be required to track distributions of earnings under rules similar to IRC Section 1368. Similarly, electing corporations (including S corporations) with appreciated assets will be required to pay a built in gains tax if they sell or dispose of such assets within the first ten years after the election. The net proceeds of built in gain transactions will be added to historic earnings and profits and not currently taxed to the partners. Finally, the election to be taxed as a partnership will not itself be treated as a sale or disposition of assets.

Consistent with the overall objective of preserving the benefits of Subchapter S, the proposal will establish a means for passthrough entities to engage in tax free reorganizations with entities classified as corporations. Under the proposal, a partnership engaged in an active trade or business may contribute substantially all of its assets to a new corporation and immediately thereafter engage in a tax free reorganization.

The bill would also adopt a recommendation of the American Institute of Certified Public Accountants and the American Bar Association that the definition of earnings from self-employment should not include the portion of a partner's distributive share that is attributable to capital. This proposal contains reasonable safe harbors and it would eliminate the disparate treatment of limited partners, S corporation shareholders, and limited liability company members. The current rules can only be described as a historical anachronism and a significant trap for the unwary. Additionally, the bill would adopt the recommendation of the Joint Committee on Taxation that the electing large partnership rules should be eliminated.

Some may argue that by repealing the S election, the proposal forces more taxpayers to contend with a more complex tax regime, but this is generally not true. If there is a demand, investors can create an investment vehicle with all the features of an S corporation by contract or they may select a state law business form that restricts flexibility, such as a corporation or close corporation. This would eliminate nearly all of Subchapter K's feared complexity. The relative complexity of Subchapter K stems from its greater flexibility. The proposal allows investors to regulate the level of tax complexity by voluntary agreement among the investors or through the investors' choice of a state law business entity.

Increase Section 179 Expensing Limit—The bill would increase the limit on expensing to $25,000 in the tax year after enactment and to $40,000 after 2012. This measure will greatly

reduce complexity for many small businesses by minimizing controversy over whether an item should be expensed or capitalized.

Rollover of Property Held for Productive Use or Investment—Present law strongly favors sophisticated taxpayers over ordinary small business owners in the execution of like-kind exchange transactions. Thirty-seven pages of the Code of Federal Regulations is devoted to the topic of like-kind exchanges, and a library could be filled with the court decisions, revenue rulings, and letter rulings that Section 1031 of the IRC has engendered. Attorneys and exchange facilitators must execute hundreds of thousands of pages of documents each year to comply with the formalistic rule that prevents the owners of like-kind property from receiving cash in a like-kind exchange transaction.

There is a simple way to eliminate this paperwork: repeal the limitation on sales for cash and allow a like-kind exchange within 180 days before or after the disposition of relinquished property. The bill does this.

Repeal of Collapsible Corporation Rules and the Personal Holding Company Tax—Finally, the bill would repeal the collapsible corporation rules and the Personal Holding Company tax, both of which regimes have been largely eclipsed by subsequent changes to the tax code. The Collapsible Corporation rules have lost their rationale, due to the repeal of the General Utilities doctrine. The Personal Holding Company tax no longer serves its original purpose, because the maximum individual income tax rate is close to the maximum corporate rate. Both provisions continue to add complexity to small business tax planning that is out of proportion to their remaining tax policy justification. Repeal of these rules is long overdue.

I urge my colleagues to join me in cosponsoring this legislation.

ELIMINATION OF DOUBLE TAXATION ON DIVIDENDS, REPEAL OF THE AMT, REDUCTION IN THE CAPITAL GAINS TAX, AND STUDY ON DEPRECIATION TAX SCHEDULES

HON. MAC COLLINS

OF GEORGIA

IN THE HOUSE OF REPRESENTATIVES

Tuesday, January 7, 2003

Mr. COLLINS. Mr. Speaker, I rise today to introduce several tax-based reform bills which will have a positive impact on our current economy. They are measures which will stimulate growth, eliminate outdated, punitive provisions of the tax code, and prepare the way for further reforms which will bring our tax code more in line with the current market conditions.

First, is the Capital Gains Tax Rate Reduction Act. This legislation will reduce the top capital gains tax rate from 20 percent to 10 percent. Additionally, the lower rate of 10 percent would be reduced to 5 percent. The measure would also repeal the five year holding rule.

This legislation is needed to spur today's ailing economy. From past rate reductions, we know that the economy responds to the lowering of rates. The impact of reducing the tax burden on investments is to increase activity in the markets. When the tax is reduced, individuals have an incentive to sell assets. These sales spur economic growth, as well as generate revenue for the Federal coffers.

Second is the Alternative Minimum Tax Repeal Act (AMT). This legislation will repeal the Alternative Minimum Tax applied to individual taxpayers. The domestic tax system has dramatically changed since the creation of the AMT regime. Consequently, this tax structure has long outlived its purpose. Today, the AMT is punitive in nature, overly cumbersome and affects taxpayers who were never intended to fall into this tax trap. Congress has taken action to address some of the concerns raised by the individual AMT. Specifically, the Economic Growth and Tax Relief Reconciliation Act (H.R. 1836) enacted in the 107th Congress made permanent the ability to offset the individual AMT calculation with the child tax credit. The measure also increased the AMT exemption amount by $4,000 for joint returns ($2,000 for unmarried individuals) effective for tax years between 2001 and 2004. In tax year 2005, the AMT exemption amount reverts back to its previous levels.

Additionally, the Job Creation and Worker Assistance Act, signed into law on March 9, 2002, provides for another temporary extension of the provisions which allow individuals to use all remaining personal tax credits against both their regular and AMT tax. These provisions expire at the end of the 2003 tax year. It is time for a permanent fix to this escalating problem. The impact of the individual AMT structure will continue to grow until these issues are addressed head on. Changes should be made on a long-term, permanent basis.

To provide a permanent remedy to the increasing problem of more tax filers falling into the AMT each year, my legislation will permanently extend the current-law provision which allows all personal tax credits to be applied against the AMT calculation. The proposal will also immediately increase the AMT income exemption level by 10 percent, and subsequently increase the exemption by 10 percent in subsequent years. In addition, the bill will repeal the income limitation that currently applies to that exemption. Finally, at the end of a ten year period, the individual AMT will fully be repealed.

The bill will also repeal the corporate AMT. The U.S. is the only nation which imposes the Alternative Minimum Tax (AMT) on businesses. It is a very complex and outdated dual tax system which essentially imposes a tax penalty for making capital investments. The legislation would also allow businesses to utilize their accrued AMT credits over the next five years.

Third is the Elimination of Double Taxation Act. Today dividends paid to investors are double taxed at the business level and then at the individual level. Today, investors are all across the economic spectrum. According to the Tax Foundation, 63.6 percent of the taxpayers who claimed dividends on 2000 tax returns earned less than $50,000 in wages and salaries. More and more, investors are men and women who are working on the front line of manufacturing firms or small businesses who have chosen to share in the benefit of their labor through investing in the business. This legislation will eliminate a cost that the government imposes on that investment.

Finally, I am introducing legislation that will begin the process of reforming current depreciation schedules in the tax code. Depreciation tax laws provide businesses the ability to deduct the costs of capital investments over time. Current depreciation schedules are dramatically out of line with the real economic life and use of the properties that are being purchased in today's markets. Often the number of years allowed for the deduction exceeds the number of years the investor may finance the capital investment. The result is a higher tax cost. This legislation will call upon the Secretary of the Treasury to make specific recommendations about how to bring the depreciations schedules more in line with the true economic life of property.

Mr. Speaker, I congratulate the President on his announcement of an economic stimulus package today. I ask my colleagues in the House of Representatives to join me by cosponsoring the legislation I am introducing. They are important first steps in addressing the need to change the tax code in ways that will provide economic stimulus across the board for American workers.

THE CONSUMER PROTECTION FOR ON-LINE GAMES ACT

HON. CAROLYN C. KILPATRICK

OF MICHIGAN

IN THE HOUSE OF REPRESENTATIVES

Tuesday, January 7, 2003

Ms. KILPATRICK. Mr. Speaker, the gaming industry has broadened its exposure over on-line and wireless communications networks. People do not have to go to casinos in Las Vegas, Reno, Detroit, Atlantic City or other gaming sites to gamble. They can play games of chance over the Internet from the privacy of their own homes.

According to one financial analysis, Internet gambling is a $1 billion industry and is forecasted to grow to $5 billion by 2005. There are nearly 1 million paying users of the largest network games and free sweepstakes sites which are among the most popular Internet destinations.

Many of the network gaming sites originate from offshore websites, and are beyond the reach of States and local authorities, even those authorities that prohibit Internet gaming in their jurisdictions. Local and state governments devote few resources to regulate or enforce laws against network gaming. No protections exist to ensure the integrity of the game, protection from minors seeking to patronize games, or protection from excessive financial loss. Therefore, network gaming continues with very little regulation and with very few guarantees that the games of chance or sweepstakes one finds on internet sites are above board.

The Consumer Protection for On-line Games Act, which I am introducing today, will allow U.S. consumers to know if the games they are playing are fraudulent. The bill will permit U.S. consumers to participate in online games with the security of knowing they are playing from a straight deck of cards. Specifically, the bill proposes the following:

1. Establishes the Federal Trade Commission as the agency responsible for monitoring games of chance offered on the Internet or wireless network.

2. Prohibits network game operators subject to U.S. law from making false or misleading claims regarding the fairness of such games.